

MEETING OF THE BOARD OF BANK ADVISORS

August 17, 2015

11:00 am

Department of Financial Institutions
324 South State Street, Suite 201
Salt Lake City Utah

Minutes

BOARD MEMBERS PRESENT:

Matt Packard, Roger Shumway, Craig White, Jason Price, and Eric Schmutz.

DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:

Tom Bay, Paul Allred, Darryle Rude, Shaun Berrett, Andrea Staheli, Eva Rees, Dan Gardiner, Commissioner Ed Leary and Sonja Long.

OTHERS PRESENT:

Jon Allen, Bank of American Fork; Lew Goodwin, Green Dot Bank; Kevin Stocking, Heber Valley Bank; John Sorensen, Home Savings Bank;

1. Call Meeting to Order – Chairman Jason Price

2. Minutes –

Lew Goodwin made a motion to accept, Roger Shumway seconded the motion. It was unanimous.

3. Vendor Management – Dan Gardiner

Dan had a slide show; there was also a handout of the slides. He went through the Vendor Management presentation. There was a discussion on options.

4. Open Meeting Training – Paul Allred

Paul went through the annual Open Meeting Act training. He read the law, Title 52, Chapter 4. By law, the legislature wants every public body to have annual training on this. Part of that training is going through the definition of terms. Paul went through those terms. He went through the requirements of the Act and related it to vendor management.

5. Performance Trends – Tom Bay

Tom gave out his handout. He went through the report. Going forward he is going to try to bring the in seven banks that don't have data on this report. It may have to be on a separate report.

Tom asked why Utah is the highest in capital. Are Utah banks more risky? There was a discussion on what might be factors in this. Commissioner Leary mentioned that when the state regulators got together recently the expectation coming out of the down turn was that you would see a lot merger activity and they were surprised at the lack of merger activity, #1 in Utah and #2 outside California, which has more banks; in other states there has not been the merger activity that was expected. Matt Packard said that that may be because there aren't that many left. The overall impression that Commissioner Leary came away with was mild surprise that there weren't more mergers. Tom finished going through the report.

6. Commissioners Comments – Commissioner Leary

For those of you that were at Sun Valley, I mentioned the University of Utah team winning the inaugural CSBS case competition. Five universities competed; they each submitted a paper and a video. The winning team gets to go to St Louis to the CSBS/FED conference on community banking. Jason Price will accompany the Commissioner to that conference. Most of you knew that they used the Bank of American Fork as the case study, how they handled CRE during the down turn. CSBS thought that the initial outcome was so good that they plan to continue it for the next few years.

The other subject that I mentioned at Sun Valley the University of Utah through the Lasonde Institute School of Business has gotten more interest and the support of the Utah Bankers Association and the UAFS and has put together a proposal to create a center for Innovation in Banking and Financial Services. Of interest to you, seed funding is going to come from the Department's restricted account. The Board of Financial Institutions endorsed the Commissioner's recommendation and forwarded it on for approval of \$300,000 the first fiscal year and then if they meet the criteria established, the second \$300,000 and a final \$300,000 the year after that. The Director of Finance came back to us and said that there is no mechanism for our Department to simply "write a check" for this. Their recommendation was to get an appropriation from the Legislature to do that. There have been all kinds of discussions on both sides on the problems with this. Commissioner Leary went through all of the scenarios.

The other item, Commissioner Leary is surprised that in the last three weeks or so, the media has discovered market lending. Every article in the American Banker, every discussion, it seems to be the subject di jour. Some of Utah's Industrial Banks are heavily engaged in marketplace lending, or facilitated lending. Lending, Prosper, Cabbage, those three are the most common that our institutions are affiliated with. It is also known as peer-to-peer lending or business-to-business lending.

John Sorenson said that he went to a Crowd Funding conference recently, they work on a platform for seed money, when they get to a certain point then they go to a hedge fund

and the hedge fund will actually fund their plan. Right now the platforms are up. They use algorithms in regards to determining the credit. To get a consumer loan or car loan it takes eight seconds. Mortgages take a little bit longer, like 56 seconds. They don't have commercial loans set up yet, but they are really close. They also don't loan to people who are self-employed. They don't have to pay for an underwriter, they don't have to pay for a processor, they don't have to pay for facilities, and they don't have regulators. All of the loans are packaged and sold on the secondary market after they go through the hedge fund.

Paul Allred said that this is all because of FINTECH. Another example of this is VENMO, college aged students transfer money using VENMO. Paul discussed this in front of 50 state's attorneys recently; they were amazed and scared that their kids are transferring money back and forth using VENMO. VENMO is a licensed money transmitter in all 50 states. They are an intermediary between your bank and the bank that your kids have money in. Commissioner Leary said that Treasury has asked for information from the states, Shaun has volunteered to sit on a working group and they are working on a statement in response to Treasury's request. They are beginning to try and put their arms around it. While there are some threatening aspects to this new form of lending, it is here for now. Some banks are already trying to get into this area.

7. Other business –

Eva Rees asked Commissioner Leary to mention ECS, Emergency Communications System. Please sign up; it is through the Federal Reserve Bank of St Louis. He already spoke to the two associations about this. It will help the FRB be able to contact the banks directly. Other states have great things to say about this system. Our state signed the documents recently and he greatly encouraged everyone to sign up. The FED promises it will not be used to market any services or products.

8. Date of next meeting – November 16, 2015 – 11:00 am